

Chapter II

History & Evolution of Stock Exchanges in India

2.1 Introduction: Before we study the historic volatile days of the ten years, let us first know what are :

- a) Stock Markets,
- b) Stock exchanges.

a) Stock Markets: Stock Market is a market where the trading of company stock, both listed securities and unlisted takes place. It is different from stock exchange because it includes all the national stock exchanges of the country. For example, we use the term, "the stock market was up today" or "the stock market bubble."

b) Stock Exchanges: Stock Exchanges are an organized marketplace, either corporation or mutual organization, where members of the organization gather to trade company stocks or other securities. The members may act either as agents for their customers, or as principals for their own accounts.

Stock exchanges also facilitates for the issue and redemption of securities and other financial instruments including the payment of income and dividends. The record keeping is central but trade is linked to such physical place because modern markets are computerized. The trade on an exchange is only by members and stock broker do have a seat on the exchange.

2.2 History of Indian Stock Market: Indian stock market marks to be one of the oldest stock market in Asia. It dates back to the close of 18th century when the East India Company used to transact loan securities. In the 1830s, trading on corporate stocks and shares in Bank and Cotton presses took place in Bombay.

Though the trading was broad but the brokers were hardly half dozen during 1840 and 1850.

An informal group of 22 stockbrokers began trading under a banyan tree opposite the Town Hall of Bombay from the mid-1850s, each investing a (then) princely amount of Rupee 1. This banyan tree still stands in the Horniman Circle Park, Mumbai. In 1860, the exchange flourished with 60 brokers. In fact the 'Share Mania' in India began with the American Civil War broke and the cotton supply from the US to Europe stopped. Further the brokers increased to 250. The informal group of stockbrokers organized themselves as the The Native Share and Stockbrokers Association which, in 1875, was formally organized as the Bombay Stock Exchange (BSE).

BSE was shifted to an old building near the Town Hall. In 1928, the plot of land on which the BSE building now stands (at the intersection of Dalal Street, Bombay Samachar Marg and Hammam Street in downtown Mumbai) was acquired, and a building was constructed and occupied in 1930.

Premchand Roychand was a leading stockbroker of that time, and he assisted in setting out traditions, conventions, and procedures for the trading of stocks at Bombay Stock Exchange and they are still being followed.

Several stock broking firms in Mumbai were family run enterprises, and were named after the heads of the family.

The following is the list of some of the initial members of the exchange, and who are still running their respective business:

- D.S. Prabhudas & Company (now known as DSP, and a joint venture partner with Merrill Lynch)
- Jamnadas Morarjee (now known as JM)
- Champaklal Devidas (now called Cifco Finance)
- Brijmohan Laxminarayan

In 1956, the Government of India recognized the Bombay Stock Exchange as the first stock exchange in the country under the Securities Contracts (Regulation) Act.

The most decisive period in the history of the BSE took place after 1992. In the aftermath of a major scandal with market manipulation involving a BSE member named Harshad Mehta, BSE responded to calls for reform with intransigence. The foot-dragging by the BSE helped radicalise the position of the government, which encouraged the creation of the National Stock Exchange (NSE), which created an electronic marketplace. NSE started trading on 4 November 1994. Within less than a year, NSE turnover exceeded the BSE. BSE rapidly automated, but it never caught up with NSE spot market turnover. The second strategic failure at BSE came in the following two years. NSE embarked on the launch of equity derivatives trading. BSE responded by political effort, with a friendly SEBI chairman (D. R. Mehta) aimed at blocking equity derivatives trading. The BSE and D. R. Mehta succeeded in delaying the onset of equity derivatives trading by roughly five years. But this trading, and the accompanying shift of the spot market to rolling settlement, did come along in 2000 and 2001 - helped by another major scandal at BSE involving the then President Mr. Anand Rathi. NSE scored nearly 100% market share in the runaway success of equity derivatives trading, thus consigning BSE into clearly second place. Today, NSE has roughly 66% of equity spot turnover and roughly 100% of equity derivatives turnover.

Stock Exchange provides a trading platform, where buyers and sellers can meet to transact in securities.

2.3 Capital Market: The capital market is divided into two segments viz:

- a) Primary Market
- b) Secondary Market

a) Primary Market:

Most companies are usually started privately by their promoters. However the promoters' capital and the borrowed capital from banks or financial institutions might not be sufficient for running the business over the long term. That is when corporate and the government looks at the primary market to raise long term funds by issuing securities such as debt or equity.

These securities may be issued at face value, at premium or at discount. Let us understand the meaning of these terms:

- **Face Value:** Face value is the original cost of the security as shown in the certificate/instrument. Most equity shares have a face value of Rs. 1, Rs. 5, Rs. 10 or Rs. 100 and do not have much bearing on the actual market price of the stock. When issuing securities, they may be offered at a discount or at a premium.
- **Premium:** When the security is offered at a price higher than the face value it is called a premium
- **Discount:** When the security is offered at a price lower than the face value it is called a discount.

b) Secondary Market:

The secondary market provides liquidity to the investors in the primary market. Today we would not invest in any instrument if there was no medium to liquidate our position. The secondary markets provide an efficient platform for trading of those securities initially offered in the primary market.

Also those investors who have applied for shares in an IPO may or may not get allotment. If they don't then they can always buy the shares (sometimes at a discount or at a premium) in the secondary market.

Trading in the secondary market is done through stock exchange. The Stock exchange is a place where the buyers and sellers meet to trade in shares in an organized manner. The stock exchange performs the following functions:

- Provide trading platform to investors and provide liquidity
- Facilitate Listing of securities
- Registers members - Stock Brokers, sub brokers
- Make and enforce by-laws
- Manage risk in securities transactions
- Provides Indices

There are two leading stock exchanges in India which help us trade are:

- i. **National Stock Exchange:** National Stock Exchange incorporated in the year 1992 provides trading in the equity as well as debt market. Maximum volumes take place on NSE and hence enjoy leadership position in the country today
- ii. **Bombay Stock Exchange:** BSE on the other hand was set up in the year 1875 and is the oldest stock exchange in Asia. It has evolved in to its present status as the premier stock exchange.

At BSE you will find some scripts listed that are not available on NSE. Also BSE has the largest number of scripts which are listed.

2.4 Introduction to BSE:

As we read in the history of Indian stock exchange; the stock exchange, Mumbai, popularly known as "**BSE**". BSE was established in 1875 as "The Native Share and Stock Brokers Association". It is the oldest one in Asia, even older than the Tokyo Stock Exchange, which was established in 1878. It is a voluntary non-profit making Association of Persons (AOP) and has converted itself into demutualised and corporate entity. It has evolved over the years into its present status as the Premier Stock Exchange in the country. It is the first Stock Exchange in the Country to have obtained permanent recognition in 1956 from the Govt. of India under the Securities Contracts (Regulation) Act, 1956.

The Exchange, while providing an efficient and transparent market for trading in securities, debt and derivatives upholds the interests of the investors and ensures redressal of their grievances whether against the companies or its own member-brokers. It also strives to educate and enlighten the investors by conducting investor education programmes and making available to them necessary informative inputs.

A Governing Board having 20 directors is the apex body, which decides the policies and regulates the affairs of the Exchange. The Governing Board consists of 9 elected directors, who are from the broking community (one third of them retire every year by rotation), three SEBI nominees, six public representatives and an Executive Director & Chief Executive Officer and a Chief Operating Officer.

The Executive Director as the Chief Executive Officer is responsible for the

day-to-day administration of the Exchange and he is assisted by the Chief Operating Officer and other Heads of Department

The Exchange has inserted new Rule in its Rules, Bye-laws & Regulations pertaining to constitution of the Executive Committee of the Exchange. Accordingly, an Executive Committee, consisting of three elected directors, three SEBI nominees or public representatives, Executive Director & CEO and Chief Operating Officer has been constituted. The Committee considers judicial & quasi matters in which the Governing Board has powers as an Appellate Authority, matters regarding annulment of transactions, admission, continuance and suspension of member-brokers, declaration of a member-broker as defaulter, norms, procedures and other matters relating to arbitration, fees, deposits, margins and other monies payable by the member-brokers to the Exchange, etc.

2.5 Introduction to NSE:

The National Stock Exchange (NSE) is India's leading stock exchange covering 364 cities and towns across the country. NSE was set up by leading institutions to provide a modern, fully automated screen-based trading system with national reach. The Exchange has brought about unparalleled transparency, speed & efficiency, safety and market integrity. It has set up facilities that serve as a model for the securities industry in terms of systems, practices and procedures.

NSE has played a catalytic role in reforming the Indian securities market in terms of microstructure, market practices and trading volumes. The market today uses state-of-art information technology to provide an efficient and transparent trading, clearing and settlement mechanism, and has witnessed several innovations in products & services viz. demutualisation of stock exchange governance, screen based trading, compression of settlement cycles, dematerialisation and electronic transfer of securities, securities lending and

borrowing, professionalisation of trading members, fine-tuned risk management systems, emergence of clearing corporations to assume counterparty risks, market of debt and derivative instruments and intensive use of information technology.

The National Stock Exchange of India Limited has genesis in the report of the High Powered Study Group on Establishment of New Stock Exchanges, which recommended promotion of a National Stock Exchange by financial institutions (FIs) to provide access to investors from all across the country on an equal footing. Based on the recommendations, NSE was promoted by leading Financial Institutions at the behest of the Government of India and was incorporated in November 1992 as a tax-paying company unlike other stock exchanges in the country. On its recognition as a stock exchange under the Securities Contracts (Regulation) Act, 1956 in April 1993, NSE commenced operations in the Wholesale Debt Market (WDM) segment in June 1994. The Capital Market (Equities) segment commenced operations in November 1994 and operations in Derivatives segment commenced in June 2000.

NSE's mission is setting the agenda for change in the securities markets in India. The NSE was set-up with the following objectives:

- establishing a nation-wide trading facility for equities, debt instruments and hybrids,
- ensuring equal access to investors all over the country through an appropriate communication network,
- providing a fair, efficient and transparent securities market to investors using electronic trading systems,
- enabling shorter settlement cycles and book entry settlements systems, and
- meeting the current international standards of securities markets.

The standards set by NSE in terms of market practices and technologies have become industry benchmarks and are being emulated by other market participants. NSE is more than a mere market facilitator. It's that force which is guiding the industry towards new horizons and greater opportunities.

Till the advent of NSE, an investor wanting to transact in a security not traded on the nearest exchange had to route orders through a series of correspondent brokers to the appropriate exchange. This resulted in a great deal of uncertainty and high transaction costs. One of the objectives of NSE was to provide a nationwide trading facility and to enable investors spread all over the country to have an equal access to NSE.

NSE has made it possible for an investor to access the same market and order book, irrespective of location, at the same price and at the same cost. NSE uses sophisticated telecommunication technology through which members can trade remotely from their offices located in any part of the country. NSE trading terminals are present in 363 cities and towns all over India.

NSE has been promoted by leading financial institutions, banks, insurance companies and other financial intermediaries

NSE is one of the first demutualised stock exchanges in the country, where the ownership and management of the Exchange is completely divorced from the right to trade on it. Though the impetus for its establishment came from policy makers in the country, it has been set up as a public limited company, owned by the leading institutional investors in the country.

From day one, NSE has adopted the form of a demutualised exchange - the ownership, management and trading is in the hands of three different sets of people. NSE is owned by a set of leading financial institutions, banks, insurance companies and other financial intermediaries and is managed by professionals, who do not directly or indirectly trade on the Exchange. This has completely eliminated any conflict of interest and helped NSE in

aggressively pursuing policies and practices within a public interest framework.

The NSE model however, does not preclude, but in fact accommodates involvement, support and contribution of trading members in a variety of ways. Its Board comprises of senior executives from promoter institutions, eminent professionals in the fields of law, economics, accountancy, finance, taxation, etc, public representatives, nominees of SEBI and one full time executive of the Exchange.

While the Board deals with broad policy issues, decisions relating to market operations are delegated by the Board to various committees constituted by it. Such committees include representatives from trading members, professionals, the public and the management. The day-to-day management of the Exchange is delegated to the Managing Director who is supported by a team of professional staff.

2.6 Introduction to PSE:

Pune Stock Exchange: There are many regional stock exchanges in India. Our regional stock exchange i.e. Pune Stock Exchange Limited stands 7th in the country. Pune Stock Exchange Ltd. is a company limited by guarantee. The Exchange was established on 2nd Sept. 1982 to cater to the needs of the growing investor community in the city.

Starting small, with 35 members and a few lakhs rupees business initially, the exchange has grown tremendously to over 185 members and about 15-20 crores of business daily. Much of the work is computerised with a smooth settlement system. Over 310 companies are listed with the Stock Exchange.

The Exchange, while providing an efficient market also upholds investors' interests and ensures redressal of their grievances. It also strives to educate and enlighten investors by making available necessary information inputs.

Pune Stock Exchange opted for the on-line screen based trading in 1995. The Exchange has been successfully using a screen based Trading System, based on VECTOR (Versatile Engine for Centralised Trading and On-line Reporting) and developed and implemented by CMC Ltd. The present operations cover 183 broker members and 9 workstations for administration, Market Operations and Surveillance activities of PSE.

Pune Stock Exchange has been looking into the possibilities of widening its activities to different parts of Pune city and to other cities like Satara, Sangli, Solapur, Kolhapur, Ahmednagar, Aurangabad, Nashik and Mumbai.

On 30th October 1982 the first trading at PSE was conducted in which 22 listed scripts were traded. Initially the trading was allowed only in the securities which were listed on PSE. Thereafter the trading was also allowed in the securities which were listed on the other stock Exchanges, under "Permitted Securities". Due to this, the turnover was increased substantially. From October 1982 to February 1996 the trading was conducted in the traditional fashion i.e. in the trading ring by way of open cry out system.

On 15th March 1996 the trading activities were switched over to the most advanced computerised system to fall in the line with the system prevalent in USA & Europe. PSE was the first regional stock Exchange to implement the online trading system. The project of online trading system was undertaken by CMC Ltd., a Govt. Enterprise and the same was completed successfully under the name style as VECTOR SYSTEM.

With this new system, the brokers now need not assemble in the trading ring for execution of their orders. They can conduct the trading by sitting in their offices from which their computers are connected to the main computer of the Exchange through Local Area Network. The orders are compiled by the main system during trading hours and are matched by computers with the principle of "best bid is matched with the best order." The moment trade is matched, it

is instantly informed to the members which he can visualise on his computer screen.

The system has also created transparency to the investors as far as the rates of the securities, the general market trend, liquidity etc. is concerned. The members are also benefited as far as their data regarding pending orders, day to day position about the business recorded is being generated expeditiously through the system.

2.7 Security Measures and Operational Features of BSE and NSE:

The leading stock exchanges in India have developed itself to a large extent since its emergence. These stock exchanges aim at offering the investors and traders better transparency, genuine settlement cycle, honest transaction and to reduce and solve investor grievances if any. *Please Note: The researcher has not covered all the operational features of both the stock exchanges, but has taken into consideration only the ones which are important to understand the thesis.* The aim to describe these operational features is for better understanding of the working of stock exchanges. This is done for the purpose of easy understanding from the reader's point of view.

Let us see and understand its general operational features.

- 1) Market Timings:** Trading on the equities segment takes place on all days of the week (except Saturdays and Sundays and holidays declared by the Exchange in advance). The market timings of the equities segment are:

Normal Market Open: 09:55 hours

Normal Market Close: 15:30 hours

The Post Closing Session is held between 15.50 to 16.00 hours.

2) **Automated Trading System:** Today our country has an advanced trading system which is a fully automated screen based trading system. This system adopts the principle of an order driven market as opposed to a quote driven system.

i) *NSE operates on the 'National Exchange for Automated Trading' (NEAT) system.*

ii) *BSE operates on the 'BSE's Online Trading' (BOLT) system.*

- **Order Management in Automated Trading System:** The trading system provides complete flexibility to members in the kinds of orders that can be placed by them. Orders are first numbered and time-stamped on receipt and then immediately processed for potential match.

Every order has a distinctive order number and a unique time stamp on it. If a match is not found, then the orders are stored in different 'books'. Orders are stored in price-time priority in various books in the following sequence:

Best Price, Within Price, by time priority.

Price priority means that if two orders are entered into the system, the order having the best price gets the higher priority. Time priority means if two orders having the same price are entered, the order that is entered first gets the higher priority.

- **Order Matching Rules in Automated trading system:** The best buy order is matched with the best sell order. An order may match partially with another order resulting in multiple trades. For order matching, the best buy order is the one with the highest price and the best sell order is the one with the lowest price. This is because the system views all buy orders available from the point of view of a seller

and all sell orders from the point of view of the buyers in the market. So, of all buy orders available in the market at any point of time, a seller would obviously like to sell at the highest possible buy price that is offered. Hence, the best buy order is the order with the highest price and the best sell order is the order with the lowest price.

Members can proactively enter orders in the system, which will be displayed in the system till the full quantity is matched by one or more of counter-orders and result into trade(s) or is cancelled by the member. Alternatively, members may be reactive and put in orders that match with existing orders in the system. Orders lying unmatched in the system are 'passive' orders and orders that come in to match the existing orders are called 'active' orders. Orders are always matched at the passive order price. This ensures that the earlier orders get priority over the orders that come in later.

- **Order Conditions in Automated Trading System:** A Trading Member can enter various types of orders depending upon his/her requirements. These conditions are broadly classified into three categories:

- ✓ *Time Related Condition*
- ✓ *Price Related Condition*
- ✓ *Quantity Related Condition*

- ✓ **TimeConditions**

a) **Day Order** - A Day order, as the name suggests, is an order which is valid for the day on which it is entered. If the order is

not matched during the day, the order gets cancelled automatically at the end of the trading day.

b) **GTC Order - Good Till Cancelled (GTC)** order is an order that remains in the system until it is cancelled by the Trading Member. It will therefore be able to span trading days if it does not get matched. The maximum number of days a GTC order can remain in the system is notified by the Exchange from time to time.

c) **GTD - A Good Till Days/Date (GTD)** order allows the Trading Member to specify the days/date up to which the order should stay in the system. At the end of this period the order will get flushed from the system. Each day/date counted is a calendar day and inclusive of holidays. The days/date counted are inclusive of the day/date on which the order is placed. The maximum number of days a GTD order can remain in the system is notified by the Exchange from time to time.

d) **IOC - An Immediate or Cancel (IOC)** order allows a Trading Member to buy or sell a security as soon as the order is released into the market, failing which the order will be removed from the market. Partial match is possible for the order, and the unmatched portion of the order is cancelled immediately.

✓ **Price Conditions**

a) **Limit Price/Order** – An order that allows the price to be specified while entering the order into the system.

b) **Market Price/Order** – An order to buy or sell securities at the best price obtainable at the time of entering the order.

c) **Stop Loss (SL) Price/Order** – The one that allows the Trading Member to place an order which gets activated only when the market price of the relevant security reaches or crosses a threshold price. Until then the order does not enter the market.

A sell order in the Stop Loss book gets triggered when the last traded price in the normal market reaches or falls below the trigger price of the order. A buy order in the Stop Loss book gets triggered when the last traded price in the normal market reaches or exceeds the trigger price of the order.

E.g. If for stop loss buy order, the trigger is 93.00, the limit price is 95.00 and the market (last traded) price is 90.00, then this order is released into the system once the market price reaches or exceeds 93.00. This order is added to the regular lot book with time of triggering as the time stamp, as a limit order of 95.00

✓ **Quantity Conditions:**

- a) **Disclosed Quantity (DQ)**- An order with a DQ condition allows the Trading Member to disclose only a part of the order quantity to the market. For example, an order of 1000 with a disclosed quantity condition of 200 will mean that 200 is displayed to the market at a time. After this is traded, another 200 is automatically released and so on till the full order is executed. The Exchange may set a minimum disclosed quantity criteria from time to time.
- b) **MF - Minimum Fill (MF)** orders allow the Trading Member to specify the minimum quantity by which an order should be

filled. For example, an order of 1000 units with minimum fill 200 will require that each trade be for at least 200 units. In other words there will be a maximum of 5 trades of 200 each or a single trade of 1000. The Exchange may lay down norms of MF from time to time.

- c) **AON - All or None orders** allow a Trading Member to impose the condition that only the full order should be matched against. This may be by way of multiple trades. If the full order is not matched it will stay in the books till matched or cancelled.

Note: Currently, AON and MF orders are not available on the system as per SEBI directives.

3) Market Segments

The Exchange operates the following sub-segments in the Equities segment:

- **Rolling Settlement**

In a rolling settlement, each trading day is considered as a trading period and trades executed during the day are settled based on the net obligations for the day.

At NSE, trades in rolling settlement are settled on a T+2 basis i.e. on the 2nd working day. For arriving at the settlement day all intervening holidays, which include bank holidays, NSE holidays, Saturdays and Sundays are excluded. Typically trades taking place on Monday are settled on Wednesday, Tuesday's trades settled on Thursday and so on.

- **Limited Physical Market**

Pursuant to the directive of SEBI to provide an exit route for small investors holding physical shares in securities mandated for compulsory dematerialised settlement, the Exchange has provided a facility for such trading in physical shares not exceeding 500 shares.

This market segment is referred to as 'Limited Physical Market' (small window). The Limited Physical Market was introduced on June 7, 1999.

Limited Physical Market - Salient Features

- Trading is conducted in the Odd Lot market (market type 'O') with Book Type 'OL' and series 'TT'.
- Order quantities should not exceed 500 shares.
- The base price and price bands applicable in the Limited Physical Market are same as those applicable for the corresponding Normal Market on that day.
- Trading hours are the same as that of the normal market and order entry during the pre-open and post-close sessions are not allowed.
- Settlement for all trades would be done on a trade-for-trade basis and delivery obligations arise out of each trade.
- Orders get matched when both the price and the quantity match in the buy and sell order. Orders with the same price and quantity match on time priority i.e. orders which have come into the system before will get matched first.
- All Good-till-cancelled (GTC)/Good-till-date (GTD) orders placed and remaining as outstanding orders in this segment at the close of market hours shall remain available for next trading day. All orders in this segment, including GTC/GTD orders, will be purged on the last day of the settlement.

- Trading Members are required to ensure that shares are duly registered in the name of the investor(s) before entering orders on their behalf on a trade date.

- **Settlement Cycle**

Settlement for trades is done on a trade-for-trade basis and delivery obligations arise out of each trade. The settlement cycle for this segment is same as for the rolling settlement viz:

	Activity	Day
Trading	Rolling Settlement Trading	T
Clearing	Custodial Confirmation	T+1 working days
	Delivery Generation	T+1 working days
Settlement	Securities and Funds pay in	T+2 working days
	Securities and Funds pay out	T+2 working days
Post Settlement	Assigning of shortages for close out	T+3 working days
	Reporting and pick-up of bad delivery	T+4 working days
	Close out of shortages	T+5 working days
	Replacement of bad delivery	T+6 working days
	Reporting of re-bad and pick-up	T+8 working days
	Close out of re-bad delivery	T+9 working days

Salient features of settlement

- Delivery of shares in street name and market delivery (clients holding physical shares purchased from the secondary market) is treated as bad delivery. The shares standing in the name of individuals/HUF only

would constitute good delivery. The selling/delivering member must necessarily be the introducing member.

- Any delivery of shares which bears the last transfer date on or after the introduction of the security for trading in the LP market is construed as bad delivery.
- Any delivery in excess of 500 shares is marked as short and such deliveries are compulsorily closed-out.
- Shortages, if any, are compulsorily closed-out at 20% over the actual traded price. Uncertified bad delivery and re-bad delivery are compulsorily closed-out at 20% over the actual traded price.
- All deliveries are compulsorily required to be attested by the introducing/ delivering member.
- The buyer must compulsorily send the securities for transfer and dematerialization, latest within 3 months from the date of pay-out.
- Company objections arising out of such trading and settlement in this market are reported in the same manner as is currently being done for normal market segment. However securities would be accepted as valid company objection, only if the securities are lodged for transfer within 3 months from the date of pay-out.
- Institutional Segment: The Reserve Bank of India had vide a press release on October 21, 1999, clarified that inter-foreign-institutional-investor (inter-FII) transactions do not require prior approval or post-facto confirmation of the Reserve Bank of India, since such transactions do not affect the percentage of overall FII holdings in Indian companies. (Inter FII transactions are however not permitted in securities where the FII holdings have already crossed the overall limit due to any reason).

To facilitate execution of such Inter-Institutional deals in companies where the cut-off limit of FII investment has been reached, the Exchange introduced a new market segment on December 27, 1999.

The securities where FII investors and FII holding has reached the cut-off limit as specified by RBI (2% lower than the ceiling specified by RBI) from time to time would be available for trading in this market type for exclusive selling by FII clients. The cut off limits for companies with 24% ceiling is 22%, for companies with 30% ceiling, is 28% and for companies with 40% ceiling is 38%. Similarly, the cut off limit for public sector banks (including State Bank of India) is 18% whose ceiling is 20%. The list of securities eligible / become ineligible for trading in this market type would be notified to members from time to time.

4) Brokerage And Other Transaction Costs

Brokerage is negotiable. The Exchange has not prescribed any minimum brokerage. The maximum brokerage is subject to a ceiling of 2.5 percent of the contract value. However, the average brokerage charged by the members to the clients is much lower. Typically there are different scales of brokerages for delivery transaction, trading transaction, etc.

The Stamp Duty on transfer of securities in physical form is to be paid by the seller but in practice it is paid by the buyer while registering the shares in his name. In case of transfer of shares, the rate is 50 paise for every Rs.100/- or part thereof on the basis of the amount of consideration and that for transfer of debentures the rate of stamp duty varies from State to State, where the registered office of a Company issuing the debentures is located

5) Transfer Of Ownership

Transfer of ownership of securities, if the same is not delivered in demat form by the seller, is effected through a date stamped transfer-deed which is signed by the buyer and seller. The duly executed transfer-deed along with the share

certificate has to be lodged with the company for change in the ownership. A nominal duty becomes payable in the form of stamps to be affixed on the transfer-deeds.

Transfer-deed remains valid for twelve months or the next book closure following the stamped date whichever occurs later for transfer of shares in the name of buyer. However, for delivery of shares in the market, transfer deed is valid till book closure date of the company.

6) Listing of Securities

Listing means admission of the securities to dealings on a recognised stock exchange. The securities may be of any public limited company, Central or State Government, quasi governmental and other financial institutions/corporations, municipalities, etc.

The objectives of listing are mainly to :

- provide liquidity to securities;
- mobilize savings for economic development;
- protect interest of investors by ensuring full disclosures.

The Exchange has a separate Listing Department to grant approval for listing of securities of companies in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956, Securities Contracts (Regulation) Rules, 1957, Companies Act, 1956, Guidelines issued by SEBI and Rules, Bye-laws and Regulations of the Exchange.

A company intending to have its securities listed on the Exchange has to comply with the listing requirements prescribed by the Exchange. The exchange prescribes different listing requirements for new companies, for

company listed on other stock exchanges, for companies delisted by the Exchange seeking relisting of the same Exchange

➤ **Permission to Use the Name of the Exchange in an Issuer Company's Prospectus**

The Exchange follows a procedure in terms of which companies desiring to list their securities offered through public issues are required to obtain its prior permission to use the name of the Exchange in their prospectus or offer for sale documents before filing the same with the concerned office of the Registrar of Companies. The Exchange has since last three years formed a "Listing Committee" to analyse draft prospectus/offer documents of the companies in respect of their forthcoming public issues of securities and decide upon the matter of granting them permission to use the name of "The Stock Exchange, Mumbai" in their prospectus/offer documents. The committee evaluates the promoters, company, project and several other factors before taking decision in this regard

➤ **Submission of Letter of Application**

As per Section 73 of the Companies Act, 1956, a company seeking listing of its securities on the Exchange is required to submit a Letter of Application to all the Stock Exchanges where it proposes to have its securities listed before filing the prospectus with the Registrar of Companies.

➤ **Allotment of Securities**

As per Listing Agreement, a company is required to complete allotment of securities offered to the public within 30 days of the date of closure of the subscription list and approach the Regional Stock Exchange, i.e. Stock

Exchange nearest to its Registered Office for approval of the basis of allotment.

In case of Book Building issue, Allotment shall be made not later than 15 days from the closure of the issue failing which interest at the rate of 15% shall be paid to the investors.

➤ **"Z" Group**

The Exchange has introduced a new category called "Z Group" from July 1999 for companies who have not complied with and are in breach of provisions of the Listing Agreement. The number of companies placed under this group as at the end of May, 2001 was 1,475.

The number of companies listed at the Exchange as at the end of May 2001 was 5,874. This is the highest number among the Stock Exchanges in the country and in the world.

➤ **New Direct Listing norms**

The Governing Board of the Exchange at its meeting held on 6th August, 2002 amended the direct listing norms for companies listed on other Stock Exchange(s) and seeking listing at BSE. These norms are applicable with immediate effect.

The company should have minimum issued and paid up equity capital of Rs. 3 crores.

The Company should have profit making track record for last three years. The revenues/profits arising out of extra ordinary items or income from any source of non-recurring nature should be excluded while calculating distributable profits.

Minimum networth of Rs. 20 crores (networth includes Equity capital and free reserves excluding revaluation reserves).

Minimum market capitalisation of the listed capital should be at least two times of the paid up capital.

The company should have a dividend paying track record for the last 3 consecutive years and the minimum dividend should be at least 10%.

Minimum 25% of the company's issued capital should be with Non-Promoters shareholders as per Clause 35 of the Listing Agreement.

Out of above Non Promoter holding no single shareholder should hold more than 0.5% of the paid-up capital of the company individually or jointly with others except in case of Banks/Financial Institutions/Foreign Institutional Investors/Overseas Corporate Bodies and Non-Resident Indians.

The company should have at least two years listing record with any of the Regional Stock Exchange.

The company should sign an agreement with CDSL & NSDL for demat trading.

7) Surveillance at BSE

The main objective of the Surveillance function of the Exchange is to promote market integrity in two ways, first, by monitoring price and volume movements (volatility) as well as by detecting potential market abuses at a nascent stage, with a view to minimizing the ability of the market participants, both in Cash and Derivative market, to influence the price of the scrip/ series in the absence of any meaningful information, and second, by managing default risk by taking necessary actions timely. All the instruments traded in the equity segment of Cash and Derivative market come under the Surveillance umbrella of BSE. Surveillance activities at the Exchange are divided broadly into two major segments, namely, price monitoring and

position monitoring. Price monitoring is mainly related to the price movement/ abnormal fluctuation in prices or volumes etc. whereas the position monitoring relates mainly to abnormal positions of members, etc. in order to manage default risk

Market Abuse

- Price Monitoring
- On-Line Surveillance
- Off-Line Surveillance
- Derivative Market Surveillance

Investigation

- Surveillance Actions
- Rumor Verification
- Pro-active Measures
- Position Monitoring
- Statement of Top 100 Purchasers/ Sellers
- Concentrated Purchases / Sales
- Purchases / Sales of Scrips having Thin Trading Purchases
- Trading in B1 , B2 & Z group scrips
- Pay-in liabilities above a Threshold Limit
- Verification of Institutional Trades
- Snap Investigation
- Market Intelligence

➤ **Risk Management Department (RMD)**

The Risk Management Department is principally concerned with the management of non-trading risks. It seeks to ensure that all risks, which threaten the business, are recognised, controlled and reduced to their feasible economic minimum and not just the risks that are

capable of being insured. The department has initiated a number of measures towards the minimisation of risks associated with paper based trading.

➤ **Nature of Risks:**

The Exchange has been exposed to a large number of risks, which have been inherently borne by the member brokers for all times. Since the introduction of the screen based trading the nature of risks to which the members of the Exchange are exposed to has undergone radical transformation. At the same time the inherent risk involved with the trading of paper based securities still remains. Though the process of dematerialisation has already begun, till such that it is made compulsory in all scrips, the risk of trading in fake/forged shares and instances of loss of shares etc. will continue to exist. The safe custody of these shares in physical form in the Exchange as well as in the member brokers offices is of prime importance.

The Risks can be classified as under:

- Risks associated with Paper Based Trading
- Lost/misplaced securities
- damage to securities
- loss of securities in transit
- Client Risk
- Client default
- Client absconding
- Fake/ forged/stolen securities introduced by the clients

➤ **Insurance - as Risk Transfer**

The Exchange presently has in place insurance policies to protect itself in the event of losses on account of fire, damage to computer systems and a comprehensive policy which covers risks faced by the Exchange, its member brokers and the Clearing House.

The Integrated Comprehensive Insurance Policy :

It is a unique and the first of its kind of policy in India. This policy insures the risks pertaining to all the member brokers, the Exchange and the Clearing House. The policy covers members of cash segment, derivatives segment and internet trading. The policy has been operational for the last five years. The policy period is from July to June. The current policy for the year 2002-2003, provides a basic cover of Rs.50 million for the various risks faced by the members. An additional cover of Rs.5 million each has also been taken for the Exchange and the Clearing House to insure only losses on account of physical damage to securities, theft, etc. Along with the pro-active risk control measures, this insurance policy will go a long way in minimising losses incurred by the member brokers, Clearing House and the Exchange .

The risks covered under the basic cover of the policy are detailed as below:

- Loss to members on account of Infidelity of employees
- Loss to the member on account of Fake/ Forged/ Stolen shares being introduced by his client
- Direct Financial loss suffered by the Member broker on account of physical loss, destruction, theft or damage to securities & cash
- Loss on account of Securities lost in transit
- Loss suffered on account of incomplete transaction

- Loss sustained as Final receiving member on Exchange on account of default of the introducing members
- Loss on account of Errors & omissions
- Director's & Official's Liability Cover

Property Insurance Policies:

The Exchange also has Fire A policies insuring the building and the contents of its property against damage to the building in event of fire and allied perils. One policy insures the P. J. Towers & Rotunda Building while the other policy insures the Cama Building.

The Exchange also has in place a separate cover for the computers, EPABX and VSATs. This policy provides for insurance cover against fire, burglary, theft and transit of the various computer systems, EPABX and VSATs that are spread throughout the country.

8) TRADE GUARANTEE FUND:

While approving the proposal of the Exchange for expansion of BOLT terminals to cities other than Mumbai, SEBI had, inter alia, stipulated that the Exchange should introduce a system of guaranteeing settlement of trades or set up a Clearing Corporation to ensure that market equilibrium is not disturbed in case of payment default by the members.

The Exchange has accordingly formulated a scheme to guarantee settlement of bonafide transactions of members which form part of the settlement system.

The Exchange has constituted a Trade Guarantee Fund with the following objectives:

To guarantee settlement of bonafide transactions of members of the Exchange inter-se which form part of the Stock Exchange settlement system, so as to ensure timely completion of settlements of contracts and thereby protect the interest of investors and the members of the Exchange.

To inculcate confidence in the minds of secondary market participants generally and global investors particularly, to attract larger number of domestic and international players in the capital market.

To protect the interest of investors and to promote the development of and regulation of the secondary market.

The Scheme has come into force with effect from May 12, 1997.

The Scheme is managed by the Defaulters' Committee, which is a Standing Committee constituted by the Exchange, the constitution of which is approved by SEBI. The declaration of a member, who is unable to meet his settlement dues, as a defaulter is a pre-condition for invoking the provisions of this Scheme.

The Exchange has contributed an initial sum of Rs.60 crores to the corpus of the Fund. All active members are required to make an initial contribution of Rs.10,000/- in cash to the Fund and also contribute Re.0.25 for every Rs.1 lakh of gross turnover in all the groups of scrips by way of continuous contribution which is debited to their settlement account in each settlement.

The active members are required to maintain a base minimum capital of Rs.10 lakhs each with the Exchange. This contribution has also been transferred to the Fund and has been treated as refundable contribution of members. Each member is also required to provide to the Fund a bank guarantee of Rs.10 lakhs from a scheduled commercial or co-operative bank as an additional contribution to the Fund.

Thus, the initial contribution to the TGF of about Rs.170 crores has been contributed by the Exchange as well as members in the manner discussed above. The total corpus of the Fund as on August 31, 2001 was Rs.981 crores.

The creation of TGF has eliminated counter party risk so that if a member is declared a defaulter, other members do not suffer as was the case in the past.

9) Brokers' Contingency Fund (BCF):

The Exchange has set up a Brokers' Contingency Fund (BCF) with a view to make temporary refundable advance(s) to the members facing temporary financial mis-match as a result of which they may not be in a position to meet their financial obligations to the Exchange in time; to protect the interest of the investors dealing through members of the Exchange by ensuring timely completion of settlement; and to inculcate confidence in the minds of investors regarding safety of bonafide transactions entered into on the Exchange.

The scheme has come into force with effect from July 21, 1997. The Fund is managed by a Committee comprising of the President, Executive Director, Vice-President, Honorary Treasurer and three non-elected directors.

The Exchange has contributed a sum of Rs.9.51 crores to the corpus of the Fund. All the active members are required to make an initial non-refundable contribution of Rs.1,000/- to the Fund and also contribute Re. 0.125 for every one lakh rupees of gross turnover by way of continuous contribution which is debited to their settlement account in each settlement.

The members are eligible to get advance(s) from the Fund upto a maximum of Rs.25 lakhs at the rate of 21% per annum.

By creation of the BCF, it has been ensured that the settlement cycles at the Exchange are not affected due to the temporary financial problems faced by the members. Thus, it is presumed, will help in increasing the credibility of the stock exchange settlement system.

10) INVESTORS or CUSTOMERS PROTECTION FUND

Investors' Protection Fund (IPF)

In accordance with the guidelines issued by the Ministry of Finance, Government of India, the Exchange has set up an Investor Protection Fund (IPF) on July 10, 1987 to meet the claims of investors against defaulter members.

The Fund is managed by the trustees appointed by the Exchange.

The members at present contribute to this Fund Re.0.15 per Rs.1 lakh of gross turnover, which is debited to their general charges account. The Stock Exchange contributes on a quarterly basis 2.5% of the listing fees collected by it. Also the entire interest earned by the Exchange on 1% security deposit kept with it by the companies making public/rights issues is credited to the Fund. As per the SEBI directive, auction proceeds in certain cases, where price manipulation / rigging was suspected, have been impounded and transferred to the Fund. Also, the surplus lying in the account of the defaulters after meeting their liabilities on the Exchange is released to them after transferring 5% of the surplus amount to this Fund.

The maximum amount presently payable to an investor from this Fund in the event of default by a member is Rs.10.00 lakhs. This has been progressively

raised by the Exchange from Rs.5,000/- in 1988 to the present level and is the highest among the Stock Exchanges in the country.

The arbitration award obtained by investors against defaulters are scrutinized by the Defaulters Committee, a Standing Committee constituted by the Exchange, to ascertain their genuineness, etc. Once the Defaulter Committee is satisfied about genuineness of the claim, it recommends to the Trustees of the Fund for release of the award amount or Rs.10.00 lacs, whichever is lower. After the approval of the

Trustees of the Fund, the amount is disbursed to the clients of the defaulters from the Investor Protection Fund.

11) Market Wide Circuit Breakers:

It would be noted that earlier Circuit Filters at individual scrip level used to restrict the excessive movements of indices as well. In the revised scenario, where there are no Circuit Filters on the scrips forming part of popular indices like Sensex and Nifty there is a need to contain such excessive market movements. Therefore, in order to contain large market movements, SEBI has mandated that the Market Wide Circuit Breakers (MWCB) which at 10-15-20% of the movements in either BSE Sensex or NSE Nifty whichever is breached earlier would be applicable. This would provide cooling period to the market participants and assimilate and re-act to the market movements. The trading halt on all stock exchanges would take place as under;

In case of a 10% movement of either index, there would be a 1-hour market halt if the movement takes place before 1:00 p.m.

In case the movement takes place at or after 1 p.m. but before 2:30 p.m. there will be a trading halt for 1/2 hour.

In case the movement takes place at or after 2:30 p.m. there will be no trading halt at the 10% level and the market will continue trading.

In case of a 15% movement of either index, there will be a 2-hour market halt if the movement takes place before 1:00 p.m. If the 15% trigger is reached on or after 1:00 p.m. but before 2 p.m., there will be 1-hour halt. If the 15% trigger is reached on or after 2:00 p.m. the trading will halt for the remainder of the day.

In case of a 20% movement of the either index, the trading will halt for the remainder of the day.

The above percentage would be translated into absolute points of the Index variation on a quarterly basis. These absolute points are revised at the end of each quarter

The Market Wide Circuit Breakers at a national level have been introduced in the Indian markets for the first time. This is on the lines of the system prevailing in the US markets.

12) BASKET TRADING SYSTEM

The Exchange has commenced trading in the Derivatives Segment with effect from June 9, 2000 to enable the investors to, inter-alia, hedge their risks. Initially, the facility of trading in the Derivatives Segment was confined to Index Futures. Subsequently, the Exchange has introduced the Index Options and Options & Futures in select individual stocks. The investors in cash market had felt a need to limit their risk exposure in the market to movement in Sensex.

With a view to provide investors the facility of creating Sensex linked portfolios and also to create a linkage of market prices of the underlying securities of Sensex in the Cash Segment and Futures on Sensex, the Exchange has provided to the investors as well its member-brokers, a facility

of Basket Trading System on BOLT. In the Basket Trading System, the investors through the member-brokers of the Exchange are able to buy/ sell all 30 scrips of Sensex in one go in the proportion of their respective weights in the Sensex. The investors need not calculate the quantity of Sensex scrips to be bought or sold for creating Sensex linked portfolios and this function is performed by the system. The investors can also create their own baskets by deleting certain scrips from 30 scrips in the Sensex. Further, the investors can alter the weights of securities in such profiled baskets and enter their own weights. The investors can also select less than 100% weightage to reduce the value of the basket as per their own requirements.

To participate in this system, the member-brokers need to indicate number of Sensex basket(s) to be bought or sold, where the value of one Sensex basket is arrived at by the system by multiplying Rs.50 to prevailing Sensex. For e.g., if the Sensex is 4000, then value of one basket of Sensex would be $4000 \times 50 =$ i.e., Rs. 2,00,000/-. The investors can also place orders by entering value of Sensex portfolio to be brought or sold with a minimum value of Rs. 50,000/- for each order.

The Basket Trading System provides the arbitrageurs an opportunity to take advantage of price differences in the underlying Sensex and Futures on the Sensex by simultaneous buying and selling of baskets comprising the Sensex scrips in the Cash Segment and Sensex Futures. This is expected to provide balancing impact on the prices in both cash and futures markets.

The Basket Trading System, thus, meets the need of investors and also improves the depth in cash and futures markets. The facility of Basket Trading has been introduced by the Exchange w.e.f., August 14, 2000.

The trades executed under the Basket Trading System on BOLT are subject to intra-day trading and gross exposure limits available to the member-brokers.

The VaR, MTM margins etc, as are applicable to normal trades in the Cash Segment, are also recovered from the member-brokers.

13 REDRESSAL OF INVESTORS GRIEVANCES AND ARBITRATION PROCEDURE

The grievances of investors against listed companies and members of the Exchange are redressed by the Exchange. The Exchange also assists in arbitration process both between members & investors and members inter-se.

Investors. grievances against companies.

Investors. grievances against member-brokers of the Exchange.

Complaints of members inter-se.

Resolution of complaints through arbitration.

Arbitration between members inter-se.

- Arbitration Committee
- Lower Bench Arbitration
- Full Bench Arbitration
- Appeal before the Governing Board
- Patawat Arbitration

Arbitration between non-members and members and vice-versa.

(a) Investors. grievances against companies.

The investors' complaints against the companies are forwarded by the Exchange to the concerned companies and a copy of the letter sent to the company is also forwarded to the complainant. He is advised to intimate the Exchange if his complaint is not resolved within 45 days. If a company fails to redress the complaint within 45 days, a reminder is sent. If a company still fails to respond to a large number of complaints pending against it, then a

consolidated list of complaints is sent to it to resolve the same within 30 days. In spite of the above efforts, if the complaints are not resolved, the company officials are asked to appear before the Investors' Grievance Redressal Committee (IGRC) appointed by the Governing Board of the Exchange to resolve all the investors' grievances. This Committee consists of five members including a retired judge of Mumbai High Court. The company officials are impressed by the committee members to resolve all the pending grievances immediately. Through the above process, Investors' Service Cell was able to reduce the pending complaints considerably in the last two years. In spite of these efforts, if the company fails to resolve complaints, then the scrip is likely to be shifted to "Z" group. A "Z" category company means that it has not complied with various provisions of listing agreement including non-resolution of investors' complaints. Through creation of "Z" category, the Exchange cautions investors to be more careful in their investments in scrips of such companies. Further, if a company fails to resolve investors' grievances, the Exchange may suspend trading in the scrip.

(b) Investors' grievances against member-brokers of the Exchange.

The Exchange handles complaints of investors against members and vice-versa. The complaints of investors are forwarded by the Exchange to the concerned members to settle within 7 days from the receipt of the letter. In case no reply is received from a member, a reminder is sent and the member is informed that if he does not reply/resolve the complaint immediately, a fine of Rs.500/- is levied on him. He is also directed to settle the matter expeditiously. In order to resolve the complaints expeditiously the matter is placed before the IGRC wherein both the investors and members present their case. After hearing both the parties, the Committee gives a decision which is binding on both the parties. In case a member fails to implement the decision of the IGRC, then the matter is referred to the Executive Director for taking

disciplinary action against the member which includes referring the matter to the Disciplinary Action Committee.

(c) Complaints of members inter-se.

The complaints of members against other members of the Exchange generally pertain to:

- Settlement objections;
- Bad delivery of securities;
- Auctions, Re-auctions, Spot transactions, Call / Dividend adjustments, etc.; and
- Non-implementation of arbitration awards.

Members are required to lodge complaints against other members in the prescribed format in duplicate along with the necessary proof in support of the same. The complaints are then forwarded to the concerned respondent members asking them to either resolve the same under advice to the Exchange or offer their comments/explanation thereon within three days of the receipt of the same. In order to resolve the complaints of members inter-set a Brokers Consultative Committee was appointed by the Governing Board. This Committee consists of five members of the Exchange. Whenever the complaints are received, the same are immediately put before the Committee. The Committee gives an award after hearing both the parties and if a party fails to implement the award then a show cause notice is issued to it. In spite of this, if a member does not implement the award, then the Investors Service Cell directly debits valan account of the member in the Clearing House and credits the other member. s account. As a result of the above, the number of pending complaints of members interse has been considerably reduced.

(d) Resolution of complaints through arbitration.

With a view to ensuring speedy and effective resolution of claims, differences and disputes between non-members and members and members inter-se, the Exchange has laid down a set of procedures for arbitration thereof. These procedures are duly embodied in the Rules, Bye-laws and Regulations of the Exchange, which have been duly approved by the Government of India/SEBI, under the Securities Contracts (Regulation) Act, 1956.

Under the Rules, Bye-laws and Regulations of the Exchange, an in-house arbitration machinery has been provided to decide on; dispute between members inter-se; and dispute between non-members (clients/investors) and members of the Exchange.

All contracts of sale and purchase of securities entered into on the trading platform of the Exchange are subject to Mumbai jurisdiction and any disputes arising in respect of such contracts are necessarily required to be submitted for arbitration. However, complaints from non-members (clients/investors) against members and complaints of members inter-se are in the first case generally investigated by the Exchange. For the purpose of investigation, documentary proof like contract notes, bills, statement of accounts and relevant documentary proof are called for from the parties. If required, personal meetings of the parties are also arranged in cases where issues to be resolved are of a complicated nature. As a last resort, where there are claims and counter-claims and the matter cannot be easily resolved by the intervention of the Exchange officials, the parties are advised to file an arbitration reference. The Exchange has amended the Bye-laws relating to arbitration between members with effect from 29th August, 1998 after getting the approval from SEBI.

Arbitration between members inter-se.

Arbitration Committee :

The provisions relating to Arbitration Committee which deals with arbitration between members inter-se are laid down in the Bye-laws Nos.282 to 315 of the Rules, Bye-laws and Regulations of the Exchange.

Three tier arbitration machinery has been provided in the Exchange to decide on disputes between members. All claims, complaints, differences and disputes between members arising out of or in relation to any bargains, dealings, transactions or contracts are subject to arbitration and are referred to the Arbitration Committee. The Arbitration Committee is appointed by the Governing Board every year. For the year 2000-2001, the Governing Board has appointed 23 members of the Exchange as members of the Arbitration Committee.

Lower Bench Arbitration :

A Committee of three arbitrators from the Arbitration Committee is constituted by the Secretary of the Arbitration Committee to look into such disputes if the value of the claim exceeds Rs. 25,000, while only one arbitrator will hear the dispute if value is less than Rs. 25,000. A member filing an arbitration reference is required to attach a coupon of Rs.100/- along with his arbitration application. Both the applicant and the respondent or their authorised representatives are required to be present in the arbitration meetings. After hearing the parties, the arbitrators give the award.

Full Bench Arbitration :

An aggrieved member, who is not satisfied with the award of the Lower Bench Arbitration Committee, may file an appeal before the Full Bench of the

Arbitration Committee within seven days from the date of receipt of the award by him provided the sum involved in the award is not less than Rs.50,000/-. The member who desires to file an appeal before the full bench of the Arbitration Committee is also required to deposit the amount of the award or shares as stated in the Lower Bench award with the Exchange along with a fee of Rs.500/-. The deposit amount/shares are retained with the Exchange until the case is decided by the Full Bench. In the Full Bench Arbitration meetings, all the members of the Arbitration Committee decide the case of appeal against the award of the Lower Bench.

Appeal before the Governing Board :

A member who is not satisfied with the award of the Full Bench Arbitration Committee may prefer an appeal before the Governing Board provided the amount of the award of the Full Bench Arbitration Committee is not less than Rs.1,00,000/-. An appeal should be filed within seven days from the date of the award of the Full Bench Arbitration Committee by paying a fee of Rs.700/- and also by depositing the award amount/shares as stated in the award with the Stock Exchange. The Governing Board is the final appellate authority in the case of arbitration between members. Beyond this level there is normally no appeal provision but in exceptional situations the Governing Board may permit a member to make a further appeal to a Court of Law.

Patawat Arbitration :

In addition to the three tier arbitration machinery as stated above, "Patawat Arbitration", i.e., disputes arising out of physical delivery of securities, is held after every settlement (Patawat). In this arbitration, all the members of the Arbitration Committee participate and award "Chukadas" (awards) on the objection memos indicating whether documents delivered are "in order" or "not in order". The members/their representatives obtain the "Chukadas" in the Patawat Arbitration sessions. The member is required to affix a coupon of Rs.50/- on the objection memo, stating the nature of the objection as per the "Uniform norms for Good/Bad delivery" guidelines standardized by SEBI across the Stock Exchanges while obtaining the award.

Arbitration between non-members and members and vice-versa.

Bye-laws Nos. 248 to 281 of the Rules, Bye-laws and Regulations of the Exchange deal with the procedure regarding arbitration between non-members (clients/investors) and members of the Exchange. At present members of the Exchange as well as outsiders act as arbitrators in the disputes and claims filed by the non-members against members of the Exchange and vice-versa. The Exchange has since appointed a panel of 24 outside arbitrators consisting of retired Judges, Chartered Accountants and other persons from the financial field in addition to 16 members of the Exchange. This is pursuant to instructions from SEBI to reconstitute the Arbitration Committee comprising of 40% of the members of the Exchange and 60% outsiders, i.e., those who are not members of the Exchange.

The Exchange has recently amended Bye-laws relating to Client v/s. Member arbitration in conjunction with Arbitration and Conciliation Act, 1996, passed by the Government of India. This has become effective from 29th August, 1998. Under the new amended bye-laws there is a panel of three arbitrators, one appointed by the applicant, one by the respondent and the third by the

Exchange. In case the value of the disputed claim is less than Rs. 1 lakh, then only one arbitrator is appointed and if the value is greater than Rs. 1 lakh, then there are three arbitrators for the case. Under the new amended bye-law after getting the arbitration award, the aggrieved party can appeal to the arbitration tribunal for any typographical/computational error, if any, occurred in the award within fifteen days from the receipt of the award. In the amended Bye-law which provides for an appeal whereby the aggrieved party within fifteen days of the receipt of the award can file to the arbitration tribunal for re-hearing the whole case. On receipt of the appeal, the Exchange appoints an appeal bench consisting of five arbitrators who re-hear the case and then give the decision. The judgment of the appeal bench is by a majority decision and binding on both the parties. The final award of the bench is enforceable as if it were the decree of the Court. Bye-laws of the Exchange provide that all arbitration references be closed normally, within a period of four months.

14) Opportunities Available For Foreign Investors

- Direct Investment
- Investment through Stock Exchanges
- Investment in Euro Issues/Mutual Funds floated overseas
- Broking Business
- Asset Management Companies / Merchant Banking

- **Direct Investment**

Foreign companies are now permitted to have a majority stake in their Indian affiliates except in a few restricted industries. In certain specific industries, foreigners can even have holding upto 100 percent.

- **Investment through Stock Exchanges**

Foreign Institutional Investors (FIIs) upon registration with the Securities and Exchange Board of India (SEBI) and Reserve Bank of India (RBI) are allowed

to operate on the Indian stock exchanges subject to the guidelines issued for the purpose by SEBI.

Important guidelines are as under:

Portfolio investment in primary or secondary market of a company by all registered FIIs, NRIs and OCBs is subject to a ceiling of 30/40 per cent of issued share capital. In any one company, holding by a single FII, NRI or OCB is subject to a ceiling of 10 percent of the total issued capital. However, in applying the ceiling of 30/40 percent the following are excluded:

Foreign investment under a financial collaboration which is permitted upto 51 percent in all priority areas.

Investment by FII's through offshore single/regional funds, GDR's and euro convertibles.

Disinvestment is allowed through a member broker of a Stock Exchange.

A registered FII is required to buy or sell securities on the Stock Exchanges only for delivery. It is not allowed to offset a deal in the same settlement. It is also not allowed to sell short, i.e., sell a security without having the stock in its portfolio.

- **Investment in Euro Issues/Mutual Funds floated overseas**

Foreign investors can invest in Euro issues of Indian companies and in India-specific funds floated abroad.

- **Broking Business**

Foreign brokers upon registration with the SEBI are now allowed to route the business of their registered FIIs clients through the members of Stock Exchanges. Guidelines for the purpose have been issued by SEBI.

- **Asset Management Companies / Merchant Banking**

Foreign participation in Asset Management Companies and Merchant Banking Companies is permitted.

In the next chapter a detailed discussion takes place about Indices in Stock exchange. The above discussion about the history and functioning of stock exchange has a direct relevance to the study of Indices.